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DIRECTORS

MRS. KENNETH L. CAMPBELL
Toronto — President
Dover Industries Limited

GEORGE F. DOWLING
Burlington — Vice-President
Dover Industries Limited

HON. JOHN M. GODFREY, Q.C.
Toronto — Senior Partner
Campbell Godfrey & Lewtas

WILLIAM O. MORROW
Halifax — President
National Sea Products Limited

JOHN R. MCPHEE
Hamilton — Vice-President Finance
and Secretary-Treasurer
Dover Industries Limited

WILLIAM H. PINCHIN
Midland — Director
Dover Mills Limited

GORDON R. SHARWOOD
Toronto — President
Sharwood and Company

DONALD SMITH
Cambridge — Vice-President
Dover Industries Limited

JOHN M. VALLANCE
Hamilton — Purchasing Agent
Vallance Brown and Company Limited

DOUGLAS H. WARD
Toronto — Chairman
Dominion Securities Limited

C. LYLE WECKMAN
Halifax — Vice-President
Dover Industries Limited

DOUGLAS H. WIGLE
Burlington — Executive Vice-President
Dover Industries Limited

EXECUTIVE OFFICERS

MRS. KENNETH L. CAMPBELL
President

DOUGLAS H. WIGLE
Executive Vice-President

GEORGE F. DOWLING
Vice-President and General Manager
Howell Packaging Division

DAVID G. GREEN
Vice-President and General Manager
Robinson Cone Division

JOHN R. MCPHEE
Vice-President Finance
and Secretary-Treasurer

DONALD SMITH
Vice-President and General Manager
Ontario Flour and Grain Divisions

C. LYLE WECKMAN
Vice-President and General Manager
Dover Mills, Halifax

OPERATING DIVISIONS

Dover Flour Mills
Chatham and Cambridge, Ontario

Howell Packaging
Burlington, Ontario

Robinson Cone
Hamilton, Ontario

Taylor Grain
Chatham, Ontario

Grain Elevators at
Louisville, Ontario
Thamesville, Ontario
Tupperville, Ontario

OPERATING COMPANY

Dover Mills Limited
Halifax, Nova Scotia

TRANSFER AGENT

Canada Permanent Trust Company
Toronto, Ontario

HEAD OFFICE

Dover Industries Limited
145 MacNab Street North
Hamilton, Ontario

REPORT TO SHAREHOLDERS:

Your Directors herewith present the 37th Annual Report of Dover Industries Limited including the Consolidated Statement for the year ending December 31, 1977 and a five year Financial Summary.

FINANCIAL HIGHLIGHTS:

Subdivision of Common Shares:

A by-law was passed April 26, 1977 at a special General Meeting of the Shareholders subdividing the Common shares of the Company on a 3 for 1 basis as of record at the close of business May 17, 1977.

Sales:

Sales for 1977 were \$37,097,127 higher by 3% than the previous year sales of \$36,042,559

Earnings:

Consolidated net income for the year was \$1,491,263 compared to \$1,428,932. Earnings were \$1.67 per new Common share after provision for taxes and Preferred dividends compared to \$1.60 in 1976 on the new share basis.

Dividends:

Dividends amounting to \$61,576 or 60c per share were paid on Preferred shares. Dividends of \$431,887 were paid on the Common stock. On the basis of the new shares this was made up of an extra of 2.4c paid in the first quarter and regular dividends of 48c, a total of 50.4c per new share.

Working Capital:

Working Capital increased to \$4,591,605 from \$3,746,852.

Inventories:

Inventories were up 10% at \$5,673,586 compared to \$5,154,720.

Capital Expenditures:

Capital Expenditures for the year were \$573,049. A fifth cone baking machine has been ordered for Robinson Cone Company to be installed early in 1978. In Chatham \$200,000 was spent to improve grain handling and flour milling facilities and, a deposit of \$143,448 has been made on machinery for the remodeling of the Cambridge Flour Mill.

OPERATIONS REVIEW:

Robinson Cone:

Sales for the year were modestly ahead of 1976 as an excellent increase in cone sales was offset by sales decline in the packaging and plastic operations. Both the packaging and plastic sales were affected by extreme competitive pricing pressures resulting in lower selling prices. Manufacturing of all products, except moulded plastics, was much improved as a result of better controls and the addition of new equipment. Moulded plastic production was curtailed as market place selling prices on some items were reduced to a level which was lower than our manufacturing costs. Service including delivery was improved through a wider distribution network. Profits for the year were ahead of last year and are now back in line with historical profits. We are optimistic about the future of our operations with the addition of more baking and packaging equipment and the development of new frontiers in both manufacturing and marketing.

Howell Packaging:

Volume of sales at Howell Packaging remained almost static and profits were reduced as a result of the depressed retail market and a continuing increase in the cost of materials and labour. The Folding Carton Industry remains very competitive because of the general low utilization of production capacity and as a result major capital programs have been deferred in favour of an increased effort to improve plant efficiency.

Taylor Grain:

Lower prices for corn and soybeans forced down elevator handling charges which contributed to reduced earnings at the Taylor Grain Division for 1977. Further additional storage and a new dryer is planned for the Tupperville Elevator.

Dover Flour Mills (Ontario Division):

Sales and operating revenues were moderately higher for the Ontario Flour division. During the year both mills continued production at maximum levels.

Planning was finalized for the complete renovation of the Cambridge Mill. Installation of modern milling equipment will provide additional capacity to meet the increased demands of the Ontario market. Completion of this project is slated for the first half of 1978.

Subsidiary Company — Dover Mills Limited — Halifax

The Dover Mills Limited 1977 operation shows a very satisfactory increase in sales and profits brought about partly by the mill strike in Montreal, but more significantly by the addition of new major accounts. Total net sales increased by 15.2% and profits were up accordingly. On November 1, 1977 the Canadian Wheat Board changed its policy on the supplying of wheat to domestic mills. Basically the change only alters the inventory position and has very little effect on final costs.

Summary:

1977 was a year of relatively satisfactory results despite the somewhat depressed state of the economy. Sales again increased but those increases were not reflected in improved operating profits. The increase in profit after taxes of 7c per share resulted from the introduction by the Government of a 3% inventory allowance which brought about a reduction in Corporate Income Tax.

We are not looking forward to any great improvement in the economic climate during 1978 but we are confident that, by continuing our efforts to remain competitive in our present fields and by an expansion into new areas, which is in the planning stage, we will be able to continue to show satisfactory profits and maintain our corporate stability.

PERSONNEL:

The appointment of Mr. David Green as Vice-President and General Manager of the Robinson Cone Division in April has strengthened our management team.

Mr. John O'Brien was appointed Milling Superintendent at the Cambridge Flour Mill early in 1977.

Mr. W. K. Clarke retired December 31, 1977, after twenty years as Plant Manager of the Chatham Mill. Mr. Paul Brennan was appointed Manager of the Chatham Mill with Mrs. Donna Armaly as Office Manager.

ANNUAL MEETING:

The Annual Meeting of the Company will be held on Tuesday, April 18, 1978 at Howell Packaging, 3230 Mainway Avenue, Burlington at 11:00 a.m. We look forward to seeing as many shareholders at that time as possible.

It is with sincere appreciation the Board of Directors acknowledge the contribution of Management and Staff during the year.

Respectfully submitted
on behalf of the Board.

Mona Campbell

President
March 20, 1978

Dover Industries Limited
CONSOLIDATED BALANCE SHEET

	<u>December 31</u>	
	1977	1976
ASSETS		
CURRENT ASSETS:		
Accounts receivable	\$ 4,176,618	\$ 3,741,661
Inventories (Note 2)	5,673,586	5,154,720
Prepaid expenses	119,655	128,271
	<hr/>	<hr/>
	9,969,859	9,024,652
FIXED ASSETS:		
Land	156,432	156,432
Buildings	3,518,369	3,534,357
Machinery and equipment	8,045,121	7,478,134
	<hr/>	<hr/>
Less — Accumulated depreciation	11,719,922	11,168,923
	6,547,904	5,980,484
	<hr/>	<hr/>
Accounts receivable, secured by mortgages	5,172,018	5,188,439
Excess of cost of investment in subsidiary over net assets acquired, less amortization	150,000	120,000
	<hr/>	<hr/>
	34,947	41,936
	<hr/>	<hr/>
	\$15,326,824	\$14,375,027
LIABILITIES		
CURRENT LIABILITIES:		
Bank indebtedness, secured (Note 3)	\$ 3,763,127	\$ 3,191,602
Accounts payable and accrued liabilities	1,269,475	1,192,980
Income taxes payable	183,801	740,948
Dividends payable	15,394	15,394
Current portion of long-term debt	146,457	136,876
	<hr/>	<hr/>
Long-term debt (Note 4)	5,378,254	5,277,800
Deferred income taxes	748,120	894,577
	880,000	880,000
	<hr/>	<hr/>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK:		
Authorized —		
105,000 6% cumulative preferred shares of a par value of \$10 each redeemable at par		
3,000,000 common shares without par value (Note 5)		
Issued —		
102,626 preferred shares	1,026,260	1,026,260
856,920 common shares (Note 5)	71,750	71,750
	<hr/>	<hr/>
Retained earnings	1,098,010	1,098,010
	7,222,440	6,224,640
	<hr/>	<hr/>
	8,320,450	7,322,650
	<hr/>	<hr/>
APPROVED BY THE BOARD:	\$15,326,824	\$14,375,027
	<hr/>	<hr/>

Mona Campbell

Director

John R McPhee

Director

Dover Industries Limited

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31	
	1977	1976
Sales (Note 6)	\$37,097,127	\$36,042,559
Cost of sales	31,165,285	30,270,454
Gross margin	5,931,842	5,772,105
Selling, general and administrative expenses	3,563,579	3,300,173
Income before taxes	2,368,263	2,471,932
Income taxes	877,000	1,043,000
Net income for the year	\$ 1,491,263	\$ 1,428,932
Net income per common share	<u><u>\$1.67</u></u>	<u><u>\$1.60</u></u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings at beginning of year	\$ 6,224,640	\$ 5,257,178
Net income for the year	1,491,263	1,428,932
	<u><u>7,715,903</u></u>	<u><u>6,686,110</u></u>
Dividends declared:		
Preferred — 60c per share	61,576	61,576
Common — 50.4c per share in 1977; 46.7c in 1976	431,887	399,894
	<u><u>493,463</u></u>	<u><u>461,470</u></u>
Retained earnings at end of year	<u><u>\$ 7,222,440</u></u>	<u><u>\$ 6,224,640</u></u>

Dover Industries Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year Ended December 31</u>	
	<u>1977</u>	<u>1976</u>
Financial resources were provided by:		
Net income for the year	\$ 1,491,263	\$ 1,428,932
Charges not requiring a current outlay —		
Depreciation	589,470	567,920
Deferred income taxes	—	83,000
Amortization of excess of cost of investment in subsidiary over net assets acquired	6,989	6,989
Provided by operations	2,087,722	2,086,841
Financial resources were required for:		
Additions to fixed assets, net.....	573,049	1,002,673
Dividends to shareholders	493,463	461,470
Reduction of long-term debt	146,457	136,876
Increase in accounts receivable secured by mortgages.....	30,000	—
	1,242,969	1,601,019
Increase in working capital	844,753	485,822
Working capital at beginning of year.....	3,746,852	3,261,030
Working capital at end of year.....	<u>\$ 4,591,605</u>	<u>\$ 3,746,852</u>

AUDITORS' REPORT To the Shareholders of Dover Industries Limited :

We have examined the consolidated balance sheet of Dover Industries Limited as at December 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31,

1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada
February 24, 1978

PRICE WATERHOUSE & CO.
Chartered Accountants

Dover Industries Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1977

1. ACCOUNTING POLICIES:

A summary of the significant accounting policies followed by the company is set forth below.

(a) Consolidation of subsidiary company —

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary.

(b) Inventories —

Inventories are valued principally at the lower of average cost and net realizable value.

(c) Fixed assets —

Land, buildings, machinery and equipment are carried at cost, less accumulated depreciation. Expenditures for plant and equipment renewals and improvements are capitalized. The cost of disposals and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Depreciation is computed on the straight-line method at rates estimated to amortize the cost of the assets over their estimated useful life, principally as follows:

Buildings	2½% - 10%
Equipment	10%

(d) Excess of cost of investment in subsidiary over net assets acquired —

The excess of purchase cost over net assets acquired is being amortized over five years to 1982.

(e) Income taxes —

Deferred income taxes are provided in respect of timing differences between financial and tax reporting, principally depreciation.

2. INVENTORIES:

The inventories consist of the following —

	1977	1976
Inventory of grains (see below)	\$2,080,401	\$1,733,478
Other raw materials	966,474	1,046,432
Work in process	663,815	436,823
Finished goods	1,962,896	1,937,987
	<u>\$5,673,586</u>	<u>\$5,154,720</u>

Until October 30, 1977 the company borrowed from the bank on the security of wheat purchased and held as agent for the account of the Canadian Wheat Board. At December 31, 1976 such bank advances amounting to \$3,325,674 were applied in the accounts against the wheat inventory.

From November 1, 1977 the company has not been required to finance wheat held as agent for the Wheat Board, and accordingly at December 31, 1977 there were no such bank advances.

3. BANK INDEBTEDNESS:

Inventories and an assignment of book debts have been pledged to bankers as collateral security for the bank indebtedness.

4. LONG-TERM DEBT:

Long-term debt consists of —

	1977	1976
7% first mortgage sinking fund bonds — Series A repayable in equal annual instalments covering principal and interest and maturing on June 1, 1978	\$ 95,853	\$ 185,434
Series B repayable in equal annual instalments covering principal and interest and maturing on June 1, 1987	798,724	846,019
	<u>894,577</u>	<u>1,031,453</u>
Less principal repayments due within one year	<u>146,457</u>	<u>136,876</u>
	<u><u>\$ 748,120</u></u>	<u><u>\$ 894,577</u></u>

Payments of long-term debt for the next five years are as follows —

1978 — \$ 146,457
1979 — \$ 54,147
1980 — \$ 57,938
1981 — \$ 61,993
1982 — \$ 66,332

Interest expense on long-term debt amounted to \$66,637 in 1977 and \$76,319 in 1976. In addition, other net interest expense amounted to \$215,247 in 1977 and \$198,691 in 1976.

5. CAPITAL STOCK:

During 1977, the authorized and issued common shares were subdivided three for one.

6. GROSS REVENUE BY CLASS OF BUSINESS:

Gross revenue includes the following classes of business —

	1977	1976
Food products	\$28,607,681	\$27,046,804
Packaging materials	8,489,446	8,995,755
	<u>\$37,097,127</u>	<u>\$36,042,559</u>

7. REMUNERATION OF DIRECTORS AND OFFICERS:

Aggregate remuneration of directors and officers for the year was as follows —

	Number	Amount
Directors	13	\$ 13,675
Officers (all of whom are directors)	7	\$237,493

8. ANTI-INFLATION PROGRAM:

Under the federal government's Anti-Inflation Act the company is subject to controls on shareholder dividends.

Dover Industries Limited

FINANCIAL SUMMARY 1973 TO 1977

	1977	1976	1975	1974	1973
Sales	\$37,097,127	\$36,042,559	\$34,117,173	\$33,924,510	\$23,808,143
Income before taxes	\$ 2,368,263	2,471,932	2,702,306	2,610,269	1,219,915
Income tax provision	\$ 877,000	1,043,000	1,153,400	1,181,400	554,800
Net income	\$ 1,491,263	1,428,932	1,548,906	1,428,869	665,115
Earnings retained in business	\$ 997,800	967,462	1,173,126	1,161,633	472,145
Cash flow	\$ 2,087,722	2,086,841	2,299,812	2,142,830	1,128,188
Current assets	\$ 9,969,859	9,024,652	7,754,044	7,523,167	6,137,337
Current liabilities	\$ 5,378,254	5,277,800	4,493,014	5,677,113	4,654,260
Working capital	\$ 4,591,605	3,746,852	3,261,030	1,846,054	1,483,077
Current ratio.....	1.9 to 1	1.7 to 1	1.7 to 1	1.3 to 1	1.3 to 1
Plant and equipment (net).....	\$ 5,172,018	5,188,439	4,753,686	4,941,069	4,139,977
Shareholders' equity	\$ 8,320,450	7,322,650	6,355,188	5,182,062	4,020,429
Shares of preferred stock outstanding ..	102,626	102,626	102,626	102,626	102,626
Shares of common stock outstanding ..	856,920	856,920	856,920	856,920	856,920
Dividends per preferred share	\$.60	.60	.60	.60	.60
Dividends per common share	\$.504	.467	.367	.24	.153
Net income per common share	\$ 1.67	1.60	1.74	1.60	.70
Cash flow per common share	\$ 2.36	2.36	2.61	2.43	1.24
Common stock equity per share	\$ 8.51	7.35	6.22	4.85	3.49

Years 1973 to 1976 adjusted for 3 for 1 stock split in 1977



